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AIR PRIORITY

FROM: Amembassy, Bonn — Despatch No. 963

TO: Department of State, Washington — December 19, 1958

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SUBJECT: Weekly Economic Review No. 51

1. Coal Developments
2. German Federal Bank Increases Credit to IBRD
3. Foreign Exchange Market Activity
4. Increased ERP Investment Loans for Saar
5. Agreement on Prewar German Assets Argentina
6. Higher Compensation for Reichsmark Bonds
7. Turnover Tax Memorandum by Finance Ministry
8. Land Governments Want to Send Observers to EEC
9. Bundestag Approves Increase Excise Taxes for Coffee and Tea
10. Atomic Energy Developments
11. Inland Waterway Shipping
12. Telecommunications Developments
13. Railway Developments
14. PAA Cuts Service to Berlin
15. FedRep to Cut Farm Subsidies
16. U. S. Rice Exporters May Gain from Red China Action
17. Higher Poultry Imports in Germany
18. Labor Developments

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1. Coal Developments (UNCLASSIFIED)

a) Coal stocks reached slightly over 13 million tons early this week, despite free shifts being reported during week Dec. 8, at 49 Ruhr mines, affecting 144,307 miners and resulting in estimated DM 3.1 million loss in wages and 194,000 tons loss in production. Mining Trade Union estimates total loss in wages since beginning of free shifts Feb. 22 amounts to about DM 43.7 million.

Total quantity of 1 million tons of hard coal under Nov. 20 implementation of Intersoal Trade Agreement is reported under contract, first shipment against total has been received in Sovzone during week.

Preliminary decision re renewal Ruhr coal sales organizations contract was made to extend deadline for three months notice of withdrawal until Feb. 1 so that old arrangement will continue through end of January.

b) Reported Agreement between Coal and Oil Industry: Coal mining and oil industries have reached agreement to avoid underbidding in both industries. Reportedly, oil industry will bind itself to maintain for two years hard coal equivalent world market price for heating oil and, in addition, will for one year refrain from accepting offers from customers to switch from hard coal to oil. Oil industry thus expects to avoid increase or equalization of taxes which had been demanded by coal industry. Details of arrangement are still being negotiated.

Comment (OFFICIAL USE ONLY): Agreement will probably be based on Art. 8 of Cartel Law, and permission of Bonn will be required. Two oil companies are subsidiaries of American firms and may have to obtain confirmation that their participation in present arrangement would not be in violation of U. S. Anti-trust Law. SPD Bundestag member Deist and party's economic expert has strongly criticized this effort.

2. German Federal Bank Increases Credit to IBRD (UNCLASSIFIED)

German Federal Bank recently agreed to grant IBRD further 3-year credit of $50 million. Of this, $33 million represents new credit. Balance of $25 million will replace previous credit maturing January 16, 1959. IBRD will deposit certificates of indebtedness bearing 3-7/8 percent interest with Federal Bank as collateral for new credit.

Including above transaction, total outstanding credit granted IBRD by German Federal Bank will amount to $331 million, of which $283 million is in dollars and $48 million (=DM 200 million) in Deutschemarks.

3. Foreign Exchange Market Activity (OFFICIAL USE ONLY)

Dollar rate reached new low this week on German exchange markets, following trend noticeable in Europe generally. "Middle rate" for dollar fell to DM 4.1817 (par is 4.20) on December 16. And similar to practical disappearance in spread between Swiss compensation and free francs and between transferable and American sterling, rates for Belg and for Convertible DM were practically same. References to expectations of convertibility began to appear in German press, although other economic and political news events seem so far to have precluded direction of much attention to currency matters.

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